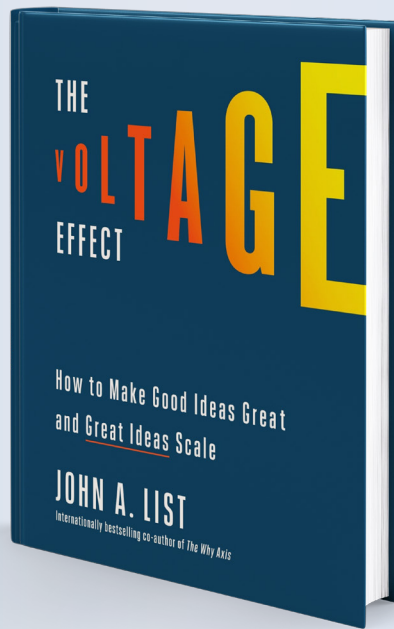


BOOK SNAPS™

Zooming In On Your Next Read



The Voltage Effect

By John A. List

Professor John A. List is the Kenneth C. Griffin Distinguished Service Professor in Economics at the University of Chicago. His research focuses on combining field experiments with economic theory to deepen our understanding of the economic science. In the early 1990s, List pioneered field experiments as a methodology for testing behavioral theories and learning about behavioral principles that are shared across different domains. He co-authored the international best seller, *The Why Axis*, in 2013.

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The Science of Scaling

A big question business owners, entrepreneurs, and dreamers all come to face at some point in their lives is, would my business/idea/program do well at scale? Will it have a high voltage or lose its spark?

Behavioral Economics professor and co-author of the international bestseller *The Why Axis*, John A. List, is a man that doesn't just ask the why's; he goes out into the world and finds the answers. Over the past 30 years, using the world as his lab, John has conducted fieldwork discovering the hidden, often surprising motivations behind big and small decisions we make every day.

Throughout his latest book, *The Voltage Effect*, John takes you on a journey of his career working for, to name but a few, Uber, Lyft, Virgin Airlines, and even The White House. In the first half of his book, John reveals the five vital signs you need to focus on to know whether your program/company/idea will scale well or lose its voltage and fail. Once your voltage is running high at scale, the book's second half tells you four proven techniques for increasing positive results at scale and designing a sustainable high-voltage culture.

In this book, John A. List has taken his new understanding of how things work and distilled it into a way that everyone everywhere can implement: from classrooms to boardrooms, non-profit offices to research labs, and the White House to your own house. "*The Voltage Effect* is for anyone who wants to increase the likelihood of their idea or enterprise succeeding."

Can Your Idea Scale?

Picture a small soap store in sunny California. Business is going better than the owner expected, and one day, she thinks to herself, "I wonder if I should open more stores here, maybe open them around America?" So, she throws caution to the wind, gets a loan from the bank, and opens a few stores across the United States. However, a year down the line, her new stores fail, and the debt she finds herself in, forces her to sell the original shop in California.

The big question here is Why? Why did it fail at scale?



After 30 years of working with people in the field, John A. List has discovered why things have failed and how you can avoid it all and answer the question, Is your idea built to fail or built to scale?

False Positives

In 2006, the CEO of Chrysler, Thomas LaSorda, was trying to save the company from bankruptcy. He reached out to John and two of his colleagues, Steve Levitt and Chad Syverson, hoping that they could find a way to help him improve the company's profits.

Chrysler has an absenteeism problem, and that's what John and his colleagues decided to focus on. A roughly 10 percent absenteeism problem was costing the company millions of dollars a year. The company also had a problem with high healthcare costs and "presenteeism" (employees underperforming because of health conditions). Data suggested an employee health program could solve both issues.

In a pilot study, John and his team partnered with Staywell Health Management, who handled programs at Chrysler relating to health and productivity. The idea was simple, cash incentives. As a reward for employees engaging in healthy activities, they would earn some money. The results came in, and all seemed good, greater healthier behaviors, lower medical expenditures, and employees in the pilot were less absent than the people who were not. In a short amount of time, John and his team had saved Chrysler money, and the CEO was ready to roll it out into all of his plants. However, John was more cautious. He proposed trying the program again in the same factory but with different employees. This time the results were not so exciting. The employees had no better outcomes than those who never took the program. The initial results from the first team were a statistical blip— a False Positive. The data appeared to be lying.

To ensure the early success wasn't a false positive, John and his team ran the program in two more plants, but like the second attempt, the program failed. Their program was just not as good as the data had initially suggested. By spotting this early on, John and his team saved Chrysler a lot of money and allowed them to return to the drawing board and create a new program that worked across the board.

"The whole episode was a powerful reminder that when you draw a sample of people for a study, you must understand that it is just that: a sample. And samples are sometimes not representative of an entire population, meaning that sometimes the results you get from your sample will not be true for the entire population. In this case, it turned out that the employees who participated in the first pilot at Chrysler were not representative of all the employees at that plant, much less at all of the other plants. So while the early data appeared solid, clearly they did not tell the full truth."

Statistical errors, however, are only one of the reasons false positives can be found across so many domains.

Spillovers

When John was working for Uber, an interesting thing happened. Uber founder Travis Kalanick decided to increase the drivers' wages. He did this by increasing the base fare for all rides. Higher fares would equal more money, right? Maybe not.

By increasing the base fare for all Uber rides, existing drivers offered more trips, and working as an Uber driver became more appealing to people who weren't currently working for them. How did this affect the money? The markets' supply-side became more competitive, resulting in each driver having fewer trips, which erased the intended gains from the wage bump.

The increased base fare unintentionally increased the number of drivers at scale and scuppered Uber's good intentions.

Incentives That Scale: Loss Aversion

Loss Aversion is one of the pillars of behavioral economics. As human beings, we hate losses, any losses, to the point that we would rather keep something small than try to gain something bigger and better.

"The pain of loss is more psychologically powerful than a gain of the same intensity. Which is why avoiding loss—and the psychological pain that accompanies it—is a potent incentive."

This pain of loss doesn't just apply to material resources like food or money. It applies to losses of any kind, including social losses.

In 2018, John and several of his colleagues were asked for help from The Dominican Republic's government. Their problem was that many people weren't paying their taxes. For instance, in 2017, nearly 62 percent of Dominican companies failed to pay their corporate income tax, while roughly 57 percent of people failed to pay their individual income tax.

Almost everyone who avoids paying their taxes is essentially weighing up the benefits versus the costs of that decision and concluding the possible gains. More profits Vs. financial penalty or incarceration. The government's problem was that the punishments were often challenging to enforce. John and his team's task was clear: find a way to incentivize the people of The Dominican Republic to pay their taxes.

As tax season rolled around, John had messages sent out to 28,000 self-employed Dominicans and over 56,000 Dominican companies. Half of the people received messages that reminded them about the possible jail time for avoiding their taxes. The other half received a message letting them know about a new law that made any punishments levied for tax evasion a part of the public record. This meant that anyone in The Dominican Republic could easily see who had not paid their taxes. This emphasis on public disclosure was there to incentivize people to avoid perceived damage to their social standing.

After tax season had finished, the results were in. The messages increased tax revenue by more than \$100 million (more than 0.12 percent of the Dominican Republic's GDP that year). The



Research shows that diverse groups generate better decisions and problem-solving skills...”

threat of jail time was the higher successor of the two, with nobody wanting to lose their freedom, but incarcerating so many of the public is not a good scaling idea. The threat of loss of social standing resulted in millions of dollars in additional revenue for the Dominican government. John and his team had only sent these messages out to a small population. At scale nationwide, the messages would generate a lot more money.

John knows this specific strategy won't work in every context. He's not suggesting that someone trying to scale their business, for example, should make public shaming and threats against people's reputations a part of their incentive structure for scaling. All he is suggesting is that an aversion to the loss of social standing is part of human nature—and incentivizing people to preserve their reputation by adhering to certain norms can clearly have an acute influence on behavior, often in positive ways. This type of incentive scales well because the more that violating that norm becomes stigmatized, the more incentivized they are to comply with it.

Scaling Culture: Recruiting at Scale

SODI (Science of Diversity Initiative), which John is an original board member of, partners companies with academics from a range of disciplines, is to promote a truth of organizational success that, in recent years, a robust body of scientific research has made impossible to ignore: diversity in all senses matters: ethnicity, gender, religion, sex, gender identity, and other characteristics.

“Diversity in people's backgrounds equates to cognitive diversity when they are together, which produces not just greater innovation but also greater resilience. Research shows that diverse groups generate better decisions and problem-solving skills, more complex thinking, and higher profits.^{17,1819} One study showed they even invest in better stocks!”

At scale, however, it can be challenging to get the level of diversity that will drive high-performing teams. John's research shows that things can go wrong even earlier in the hiring process—with recruitment.

Equal opportunities have become the norm in the workplace today, but if you don't advertise well, you can leave yourself short of the diverse people that will help your culture thrive at scale. John and his colleague Andreas posted a job opening using an existing organization for an administrative assistant position in ten different US job markets. The selected cities contained different racial compositions. They targeted several white-dominated cities and more racially diverse cities.

One group of applicants received a posting with an Equal

Employment Opportunity (or EEO) statement, another without one. Roughly 2,500 people applied. They also offered potential job-seekers a \$10 Amazon gift certificate to take a short survey, which would allow us to collect more qualitative data about what drew an applicant to this particular ad.

John and his team thought the racial minorities would apply more to the posting with the EEO statement, but they were wrong. The statement discouraged minorities from applying by as much as 30 percent. From the data attained, it was evident that the people worried if they worked for this company, other people working there would judge them, think they were the token employee, and possibly believe that they only got the job because of their race. The message the potential applicants received from this advertisement was that the company wasn't truly dedicated to diversity and inclusivity. They felt the company was putting a mask on to look good.

List addresses this: “It is not enough to tell applicants that you're committed to diversity. You have to show them that your declared workplace values are also the actual ones that employees will experience and contribute to if they are hired. The good news is that when you do reach a critical level, diversity is easier to scale because of the ‘flywheel effect.’ Once in motion, the data on the racial and ethnic composition of your workforce (very often publicly available online) will begin to tell your story and spin further gains. A person of color will simply look up a company and see what percentage of employees are people of color, where employees of color stand in the company org chart, and more.”

The Voltage Effect: How to Make Good Ideas Great and Great Ideas Scale is a book filled with insightful knowledge. John A. List has gone out into the real world and spent 30 years finding answers to the questions people often have on how to become a success at scale.

The examples throughout this book, mixed in with some of John's personality, make *The Voltage Effect* an informative (based on facts and not opinions) and pleasant read to sit back and enjoy. This book should be in the arsenal of anyone wanting to succeed at the top.